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**1963  
MEMBER RELATIONS  
CONFERENCE**

U. S. DEPT. OF AGRICULTURE  
NATIONAL  
NOV 16 1964  
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**MIDWEST REGION  
Des Moines, Iowa  
May 6-8, 1963**

✓  
615  
**Sponsored by  
Farmer Cooperative Service  
U.S. Department of Agriculture  
and  
American Institute  
of Cooperation**

FARMER COOPERATIVE SERVICE  
U.S. DEPARTMENT OF AGRICULTURE  
WASHINGTON, D. C. 20250

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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## FOREWORD

This Conference is the fifth in the Midwest area of a series being conducted on a regional basis throughout the United States. Sponsored jointly by Farmer Cooperative Service and the American Institute of Cooperation, the purpose of these conferences is to bring together for an exchange of ideas and techniques men and women who are professionally engaged in the general field of cooperative member relations.

In some cases these participants are employed full-time in cooperative member relations activities. In other cases they are men and women who, while employed in some other capacity, have developed an effective member relations program as a part of their over-all work assignment.

One of the most important features of these conferences is the give-and-take of ideas during the discussion periods. Unfortunately, it is not possible to include these discussions in this report. However, the following speeches will serve to give readers an idea of the type of material covered at this conference and at others in the series.





## SESSION I

Tuesday morning, May 7, 1963

Chairman: Don Edison

### COMMUNICATION

#### Effective Communication Principles and Practices

C. Maurice Wieting

Effective Communication Principles and Practices is our topic this morning. Since the theme of this conference is New Developments Affecting Member Relations Programs, we shall give special attention to changes that are taking place in our cooperatives and their communication techniques.

Before we go very far we want to learn about your concerns. What are some of the barriers to effective communication in your co-ops? Are there principles of communication that apply to all types of cooperatives? How can we recapture the degree of participation in our co-ops that we had in the early 1930's when we were struggling to exist in the face of seemingly insurmountable odds?

One of the facts you must have learned in working with cooperatives is that there are few experts who can give you the answers to your questions. Some of us are older, some of us have been on the job longer, and some of us have strong opinions, as you will observe.

All of us who work for, or belong to, a cooperative are member relations workers when the term is used in its broadest sense. Cooperatives are open-membership associations. The more people who participate in co-ops the more successful they will be.

Some of us work more directly with members in meetings. Others of us use the printed word as our basic tool of communication. It is this great variety of methods that makes communication with our members so complex.

Irwin Rust in his valuable pamphlet, Making Member Relations Succeed, Information 32 of the series published by the Farmer Cooperative Service of USDA, makes the point that member relations programs are essentially educational and that they rest first of all on good communications.

Let me outline a few basic principles of communication as I see them.

First, I believe that before effective communication can take place it is necessary that those of us doing the job know what we are talking about.

Some years ago I wrote a book on cooperatives for teachers, *The Progress of Cooperatives*. My research showed me that very few educators knew what cooperatives were or how important they are in our American economic system. I began the book with this definition: "A cooperative enterprise is one which belongs to the people who use its services, the control of which rests equally with all the members, and the gains of which are distributed to the members in proportion to the use they make of its service."

Marvin A. Shaars, professor of Agricultural Economics at the University of Wisconsin, recently restated what he considered the "hard core" principles of cooperation as: (1) Service at cost to member-patrons; (2) Democratic control by member-patrons, and (3) Limited returns on equity capital.

There are other practices that many co-ops follow such as neutrality in politics and religion, continuous education, cash trading, and a policy of expansion. These have great merit but are not observed by all cooperatives.

You will recognize these principles and practices as being essentially those used in 1844 by the Rochdale Society of Equitable Pioneers. Of course, modifications have taken place to meet present-day conditions, but the basic fact remains that a cooperative is formed by people to serve their needs and is a nonprofit association.

There was a time in the depression years of the 1930's when such men as Murray D. Lincoln, Ed Babcock, Harvey Hull, Howard Cowden, E. R. Bowen, and a host of others went up and down this Nation preaching the gospel of cooperation.

Today the strength of the cooperative movement in the United States is evidence of how right these men were in their insistence that cooperation had more to offer members than a business run by a third party for the profit of stockholders.

I think some of our present-day cooperative leaders need to "hit the sawdust trail" and get co-op religion again. Too many of them like to think that cooperatives are just another business that can be run like any other corporation.

There is no need for me to point out to this group that member relations and communications programs of a cooperative for a democratic peoples' association must be far different than the "high pressure from-the-top-down methods" of a corporation operated for the profit of stockholders.

A second principle of communication which I wish to mention is that we need to know how adults learn. Modern psychologists tell us that adults learn throughout life at just about the same rate as children. This is fortunate, because the world we live in is changing so fast that many of the things we have thought to be true have been demonstrated false, and the scientific revolution is only beginning.

It is my belief that most adults learn best through a process of problem solving. They face a situation, study it and apply all the facts they have available or can find, consider possible alternatives, and then act.

Our decisions are often made in groups because we are part of the whole democratic process. Our job as member-relations workers is to understand the group process and make it more effective. We must have faith in people, and believe that they can make sound decisions for themselves and their cooperatives, if they have the facts.

We know, too, that people learn through repetition. Most of our commercial advertising is built on the basis of the repeated message, no matter how false its contents. Some of our cooperative communications have sunk to this level.

There is a place for cooperative advertising and promotion. But what a mistake if it is no better than that used by profit business, which cannot make use of membership loyalty!

We need to educate our members so that they think of cooperatives as "ours", not some outside business run by someone else. People will take the time to solve "our" problems and to make "our" co-ops succeed.

Education must be a continuous process. Our membership is part of a passing parade. Some are young, some are middle-aged, others are old. And we must communicate and work with all of them.

### Communication Practices

I now want to turn to a discussion of communication practices. I. W. Rust tells us of two surveys, one in 1950 and another repeated in 1960, which show that the seven most effective methods of cooperative communication are: (1) Periodicals; (2) personal contacts; (3) circular letters; (4) annual meetings; (5) annual reports; (6) educational exhibits; and (7) radio programs. To this I would now add television.



## Publications

I. W. Rust reports that 98 percent of all cooperative members surveyed in 1960 reported reading all or part of their cooperative periodicals. Evidently, very few of those interviewed come from Ohio because I am constantly appalled at the number of cooperative patrons and Farm Bureau members who are uninformed about our organizations.

Certainly one of the advantages of a periodical is the fact that it reaches members at a regular interval and that it can be mailed at a minimum of expense, if your cooperative has second-class mailing privileges.

Good publications cost money, need skilled editors, and must have a sound editorial policy. There ought to be the closest relationship between the editors of a co-op publication and its membership workers. Both need each other, if they are to communicate with members.

Cooperative publications have to compete for attention in the home. The busy farmer may read the daily paper, a farm magazine, or turn on the television without looking at the co-op periodical. We need to reach the wife and children as well as the man of the family.

## Personal Contacts

I have great faith in personal contacts. I agree with Mark Hopkins, who is supposed to have said that the perfect university was a log with a scholar on one end and an eager student on the other. When our cooperatives were smaller, there were endless opportunities for face-to-face contacts.

Even though our cooperatives are far larger, there still are many opportunities for personal contacts. Some of the very best membership relations work takes place in the co-op as patrons talk with employees while they make their purchases.

Claude Gifford, associate editor of Farm Journal, recently told our Ohio Farm Bureau Board that more co-op patrons should be placed on committees. He told of a marketing co-op in California where one of every nine members was on a committee of some kind. Gifford reported that the results were startling, most members were well informed about the affairs of their organization, and patronized more because they knew how it worked.

### Circular Letters

These rank third in the list of effective communication practices, however, rising postal rates will limit the number of letters mailed. I have some reservations about the effectiveness of form letters which can be so easily lost in the "junk" mail that every cooperative patron receives.

### Annual Reports

All of our cooperatives put out annual reports, and my plea is to make them simple enough so that the patron can understand them. For the past 5 years we have printed our annual report in our magazine so that it goes to most of our patrons rather than only to those who attend our State annual meeting.

### Educational Exhibits

All of us have put up displays for annual meetings and booths for fairs. Exhibits are costly and, if they are to be effective, they need to be manned so that those who stop can be given the information they desire. Many times a booklet can be effectively distributed at an educational exhibit.

I have with me an attractive booklet put out by Midland Cooperatives, Inc., entitled, "What This Means To You." In a few pages it develops the theme that cooperatives are an extra margin of value because of the practices they follow.

### Radio and Television

Most of us have had some experience with radio and television programs. Certainly radio is an effective way of reaching farm people. Here in the Midwest, I have noticed that more cooperatives are using television than in the East.

This year we have prepared a monthly half-hour television program for WOSU-TV at Ohio State University. This program has been put on tape so that it can be loaned to other television stations. Each program is related to our Advisory Council topic for that month.

### Advisory Councils

In closing, I want to tell you a little more about our Advisory Councils in Ohio. Groups of from 8 to 10 families come together once a month in homes for an evening of discussion and fellowship. We now have 1,635 Advisory Councils and estimate that some 25,000 men and women participate.

These groups are organized on a friendship basis with each group deciding who shall belong and how they shall operate. Each has its own officers--a chairman, a discussion leader, a secretary, a man on a county legislative committee, and a woman to serve on the county women's committee. Terms of office are generally for one year.

Meetings are informal and the discussion is based on a Guide prepared by our Information and Education Department in Columbus. Outside speakers are not used, but sometimes a resource person is invited because of his expert knowledge on the subject being discussed. This may be the manager of the co-op, the county commissioner, the extension agent or anyone else.

The topics discussed are based on a poll taken each fall to determine what problems are of most interest and concern. In addition, a study is made of the resolutions adopted by the Farm Bureau at our annual meeting. We always have at least one Guide on a cooperative topic, one on membership, one related to health and safety, and one dealing with world affairs.

Our Guides are four pages in length, printed and illustrated. They can be read in 10 minutes, and this is often the procedure used by Councils. There are appropriate questions raised in the written material, and the hope is that this will spark a discussion with many points of view being presented.

The secretary sends minutes of the discussion and the conclusions reached in to our State office. We read all minutes, and then return them to our county organizations, where they are studied by local boards and personnel. As a rule we hear from over 1,200 Councils each month.

Attendance at Council meetings is excellent. Groups set a night most convenient to them and then meet on that date each month. Families with younger children bring them along. Most groups tend to be of the same age range. Since the Council meets in a different home each month, by the end of a year all homes have been visited. The woman in whose house the group meets provides light refreshments after the discussion. Informal visiting often goes on well past midnight.

Council members develop the ability to express opinions on critical issues. Most of our leadership in Ohio has come out of these Council groups, and many men and women tell us that these meetings are the most important events they attend.

Once a month representatives from each Council in a county meet with representatives of other Councils. At that time there is an exchange of reports and opinions. Several members of the county board are present, and they often discuss problems with these Council representatives and ask them to go back to their Councils for advice.



It is clearly known that these groups are "advisory" in the fullest sense of the word. The board retains the legal power to act and delegates to management the tasks that it must perform.

Advisory Councils are now in their 27th year in Ohio. There are similar Farm Bureau groups in Michigan, Vermont, Maryland, Kentucky, and other States.

Many cooperatives have experimented successfully with the same techniques. We borrowed the idea of discussion groups from Nova Scotia in 1935. They in turn knew about the study circles in Sweden that are so effective.

### The Job Ahead

All of us know that we need more effective communications with our members. We can learn a great deal by sharing some of our practices and adapting new techniques to meet new situations.

But basic to all communications is the need to have something to say. In the future we need to do more to be sure that our members understand cooperative principles so well that they will participate to a greater degree in the businesses they operate and own.

### Making the Idealism of Yesterday the Realism of Today

Harold E. Hughes

We live in a great Nation--and we work together under a great system, the free enterprise system.

I like to think that our Nation is big enough to embrace people of all creeds and races and ways of life.

At the same time, I like to think that our free enterprise system is big enough to include many types of economic enterprise under the big sky of our freedom.

Certainly, you cooperative leaders have had a valuable and resourceful part in building the economy of our section of the Nation. I admire what you are doing here at this conference in improving your services to the people through study, education, discussion--and, above all, cooperation.

We are, as I see it, at the crossroads of a great new era. This is a vision, I am sure, that you people and I share in common. We are not talking about something that is theoretical pie-in-the-sky.

We are talking about realities--that are well within our reach, if we have the courage and the initiative to strike out for them. The lesson of history is that the idealism of yesterday is the realism of today.

The realism of today is this: We live in the greatest food-producing area in the world. In the last generation, our region has enjoyed substantial industrial growth and its cities and towns have become a strong and united influence in the region's development.

Somehow, if we can properly join and coordinate our agricultural development with our urban development, we will have the key to the promised land of prosperity and good life.

I think we are on the threshold of doing just this. I know, without asking you, that you share this conviction.

It would be tragic if we became so preoccupied with industrial development and urban growth that we forgot that our basic industry is agriculture and that rural people built our region into the greatest food-producing area of the world.

On the other hand, it would be equally tragic if we failed to realize that seven of eight of the children on farms are no longer needed on the acres and must find nonagricultural employment within our States--or in localities beyond their borders.

It is high time, therefore, that we set aside old prejudices, cliches, and special interests that have narrowed our views in the past. It is high time that we move towards the future of abundance and well-being that lies before all of us, if we are willing to work together.

In the past, we have failed to grasp the fact that what we have is essentially one big community--rural and urban people, industry and agriculture, labor and management--with all of its components depending upon one another for their well-being.

What is good for agriculture is good for the entire Midwest and by the same token, the growth of industry affects the welfare of all our citizens. Progressive cities--with good streets and parks and schools--enhance the advantages of rural living.



By the same token, well-run, prosperous farms, good county government, and roads are a blessing to urban citizens.

We all depend on one another. We need to plan together and work together to prosper together.

I am convinced that our basic problem is psychological and spiritual rather than technical.

We want the finest of farms and the best of industries. Yes, but above all, we want a good life for our people, both rural and urban, and a society of good homes, churches, and schools.

We have the spiritual resources as well as the material resources to realize our great potential. We simply need to get our perspective straight.

I dwell briefly on this realism of today and this idealism of tomorrow because this is the climate in which we must do our planning and working. This is a climate which spells opportunity for all of us--if we know where to grasp that opportunity.

As a framework for discussing this opportunity, let me express some convictions which prompt me to solicit the support of cooperatives in helping our region realize its great potential.

I believe that cooperatives are an integral part of the free **private enterprise** system which has brought Iowa and her sister Midwest States to their present level of achievement. Applying a deep appreciation of social and human values in their approach to economic problems, cooperatives have enabled and are enabling "little people" to do great things.

Cooperatives came into existence to fill certain needs--needs which were not being fulfilled by existing enterprises. And they have a responsibility to remain sensitive to new needs as they arise.

I know that your interests go beyond the important responsibility of helping your members market their farm produce at the best possible prices, purchase farm supplies at reasonable cost, or whatever type of service your cooperative performs.

As citizens and businessmen, you are interested in building your State--its farms, its cities and its towns--and gentlemen, so am I in my State.

I think that many of us realize we aren't doing as much as we could to further the economic development of our States, to find new solutions to new problems, and to measure up to the greatness of our past.

We need to move forward in new programs of research--research to develop new ways to utilize the agricultural products we raise; economic research and analysis--studies of raw materials, products, byproducts, income studies, manpower surveys, and so on; continuing research in scientific agricultural techniques.

We need to move forward with an improved and expanded system of vocational-technical education.

We need to exploit the great potential in the concept of "area development." A community or county that is in economic trouble alone may derive strength it never dreamed of by fitting into an area development pattern.

I personally believe that planning and promoting a given area of a state, consisting of a number of communities and counties as a unified section, offers a great deal of hope for the future of our Midwestern States.

All of the effective approaches to a State's development--whether they be new or old--have one characteristic in common. They depend upon cooperation among the various segments of our populations.

In this reference, I am greatly encouraged by what I believe to be the evidence of greater rural-urban understanding--of the public recognition of the interdependence of rural and urban communities.

In the old days, there seemed to be a pitched battle going on all of the time between the cities and towns and farm organizations.

Now there is increasing communication between farm and city groups and an understanding that neither group can prosper without the all-important element of cooperation between them.

There are, of course, still some elements of the battle going on, and I would be less than honest to deny that this is the case.

You cooperative leaders have "had your lumps" from it, I know, and I can only say that I think you are wise in exercising patience and forbearance in the face of criticism. Certainly you have received little credit for the unquestionable contribution you have made to economic progress.

Now with reference to your efforts to achieve better urban-rural understanding, I want to applaud what you have been doing in community development and area redevelopment. I hope you will continue and increase these activities.

What type of business organization is better qualified to provide leadership for such development programs than a cooperative, which was created to meet a need and has demonstrated its ability to survive under pressure?

Cooperatives have been described as business enterprises with a social conscience. The community and area development concept involves both economic and social aspects. It is the kind of worthwhile program in which cooperatives are uniquely qualified to make another substantial contribution.

It is my firm conviction that the enterprise and standards of efficiency demonstrated by cooperatives have stimulated middlewestern development and progress.

I commend you on the role you have played in this exciting drama of growth. I urge you to apply the techniques and tools that you have used so well in the past to the problems of the present and future.

In conclusion, let me leave you with this question to ponder.

What is the difference between rural and urban people?

I have lived all of my life in close contact with farm people, small town people, and city people. I have hunted and fished with these people, and I must say that there didn't seem to be any serious difference between us when we were in a duck blind or were fly-casting for bass.

I have seen farm people turn out like saints to help a neighboring family that was struck by accident or death or disaster. I have seen businessmen getting together quietly for some act of anonymous charity. I have seen laboring people bring money and baskets of food to a family in need at Christmas time.

What does it add up to? It adds up to this. In the final analysis, it is the people that count--whether they be farmers, doctors, teachers, businessmen, or laboring people.

I believe in our people, and I believe in the future of our Nation.

So far as I can see, this is saying the same thing twice.

## SESSION II

Tuesday afternoon, May 7, 1963  
Chairman: T. L. Davis

### TURNING A PROBLEM INTO AN OPPORTUNITY

#### Member Relations Implications of the Internal Revenue Act of 1962

Harold Hamil

In the field of member relations there were plenty of problems even before we got the 1962 tax law. However, the new tax law does suggest the use of methods and approaches that can deal with older and longer-established problems in the affairs of farmer cooperatives at the same time they deal with new ones.

Long before the 1962 tax law took shape, we had to concede some conditions that are merely brought into sharper focus by the new law. These can be summed up as follows:

1. Too many farmers are half-hearted about cooperatives because they have not been convinced that cooperatives can do anything for them.
2. Too many cooperative boards and managers are half-hearted in the same way.
3. Nonfarm interests have been encouraged to snipe at cooperatives with vicious and unfair tactics, because they are sharp enough to detect the half-heartedness that runs through the thinking of many farmers and their cooperative leaders.
4. The whole business of agriculture operates in a national climate that is essentially cool, if not downright hostile, to the idea that farm problems can be solved in many instances by organizations owned and controlled by farmers.

The first and most important benefit I see in the new law is that it forces on all cooperatives the responsibility of delineating the particular character of cooperative business.

It forces cooperatives to give more meaning than many have given to the matter of membership. In countless communities, there are farmers who are extremely fuzzy as to the state of their memberships. Some don't know whether they belong or not. And many who know they belong, don't know their rights and privileges.



Under the new tax law, there can be no question as to who is a member and who is a nonmember. The member is going to have to stand up and be counted--if in no other place, he must at least be on record with his social security number.

In order to survive under the new law, every cooperative must keep accurate and up-to-date records of member patronage--and for many that is going to mean far better record keeping than has been the rule in the past. Good record keeping is an essential of good member relations--for how can a cooperative keep in touch with its members, if it can't turn to its books and determine who they are and where they live?

I know of cooperatives that have from 500 to 1,000 members, but that never bother to send promotional materials or membership publications to more than half the total. The managers and bookkeepers simply refuse to concern themselves with changes of address and other details of maintaining good mailing lists. All this had better change, or these cooperatives can be in real trouble.

The new law is forcing many boards and managers to reconsider their financial structures and policies. The requirement that a cooperative pay 20 percent of its current earnings in cash is forcing on some cooperatives the realization that they have been less than diligent about seeing to it that there are some earnings to pay out.

Those organizations that have tried to hold their membership together by undercutting competition will realize that it is important in any cooperative to operate with sufficient margins to assure reasonable savings in normal years. The cooperative that is sensitive to its responsibility to come up with savings each year will become more efficient. It will have more appeal to its membership than the one that barely manages to break even.

There are indications that many cooperatives may abandon the membership certificate that is paid for out of earnings and insist on cash purchase of membership. There is every reason to believe that this will be good for member relations. It brings the cost of membership into clear focus by placing on it a cash value that is unmistakable.

Among the more successful cooperatives in the membership of Consumers Cooperative Association is one that has a value of \$25 on each share of stock. But in order to be eligible for cash patronage refunds a person must own six shares. Membership in this organization is worth something.

With this new law, we have a new answer to those who challenge the tax position of cooperatives. We can concede that there was confusion under the 1951 law. But, we must point out that the new law does not impose new taxes. We can emphasize that all the fuss in Congress was over procedures

and not over the existence of any income that heretofore had been clearly exempt from taxation.

The new law confirms our position of past years. It concedes that there were no loopholes of basic intent--just some unanswered questions about how taxes on cooperative earnings were to be collected.

Our opportunity in member relations is to interpret and explain the new law as meaning that Congress has treated cooperatives as important, respected elements in our economy, and has set up some new machinery to make sure that any taxable income resulting from the operation of cooperatives is taxed.

At the same time, however, I think we need not gloss over the fact that some provisions of the new law are unnecessarily tedious. However, there is some hay to be made from the irritations that the new law is bound to cause.

I wonder sometimes if our cooperatives, as they attain a measure of maturity, aren't overlooking the benefits that come from keeping always before us the evidence of clear and present danger.

It is an established fact that much of the inspiration behind the founding of our cooperatives came out of adversity. It was easy to arouse farmers to see the advantages of working together when homespun orators could make the rafters ring with their lists of parasites and predators who lived off the sweat and toil of farmers.

The trouble with some of us is that we would rather be liked than respected. When nice people say bad things about cooperatives, we are inclined to turn our heads.

There is still room for the militant attitudes of our cooperative founders, even though we may have to put them in modern dress.

In summary, I would say that the cooperative that has carried on an aggressive member relations program will not have much trouble with the new tax law.

But the cooperative that has not been watching out for its member relations should start doing so now. Our organizations stand out as cooperatives in a clearer and brighter light than has ever been thrown on them before.

Let us think of this new law in terms of this bright light.

If we try to make ourselves believe that the new law has cast a shadow over our cooperatives, it may turn out to be just that. No cooperative board or manager can afford to be pessimistic about this situation. All of us must be optimistic about the possibilities and opportunities, and be aggressive in taking full advantage of them.

We must come back to the fundamental concepts. We must build the proper sense of ownership in our members. We must appeal to their pride in having something that is theirs to use as they see fit.

In the cooperatives affiliated with CCA, there have been hundreds of meetings at which the new law has been discussed. I canvassed about 15 key men in our organization who have attended these meetings as to what they had observed. Their comments can be summed up about as follows:

Where there have been good member relations, there have been no problems.

Develop a membership that understands what your cooperative is and what it is doing, and it will accept this new law, even if it doesn't completely understand it.

#### Advantages and Disadvantages of a Capital Retain Plan from a Member Relations Standpoint

John C. Rhein

I was delighted to receive the invitation to participate in this program today. These are changing times, and the problems created by the Internal Revenue Act of 1962 make it worthwhile for all of us to get together like this to discuss our mutual problems.

We have an opportunity to re-examine the whole cooperative concept and structure and the raising of member capital through the withholding of excess revenue over expenses. Yes, we can turn a problem into an opportunity.

Figures show that members of cooperatives own a little over 15 percent of the total investment in their cooperatives. This ownership is evidenced by common stock, preferred stock, membership equities, and certificates of various kinds. A little over 10 percent of equity capital is acquired through authorized deductions, wherein the member gives the cooperative authorization to deduct certain amounts for capital purposes.



Nearly 61 percent of all equity capital is acquired through savings realized and refunds retained by the cooperatives. The remaining 14 percent of equity capital is acquired by a combination of methods including purchase, refunds retained, and authorized deductions.

The problem of how equitably to capitalize a cooperative so that the capital furnished by a particular member will bear a direct relation to his patronage and ultimately will be returned to him is believed by many competent cooperative leaders to be solved best through use of the revolving fund plan of financing. Many cooperatives have begun business with a small amount of capital, which has been gradually increased from deductions or savings without giving to the respective patrons a clearly defined contingent right with respect to the sums that each by reason of his patronage has provided. Frequently, the early patrons of a cooperative are largely responsible for building up its capital, while those who later become its patrons are not required to make comparable investments therein. Such inequities are avoided by the revolving fund plan of financing.

This plan in general is one under which--after sufficient capital has been accumulated to justify doing so--money supplied by current patrons or others for capital purposes is used to retire the oldest outstanding investments of patrons or others in its revolving fund.

In marketing cooperatives, money for capital purposes is obtained principally from retains or deductions on a percentage or a unit basis, or from the sale of certificates of various kinds. In farm supply cooperatives, the major part of the capital is usually obtained from savings.

Such cooperatives, instead of paying out patronage refunds in cash, pay them by offset against the obligation of each patron to invest in the capital of the cooperative. The resulting investment is evidenced by stock, some form of certificate of interest, or a book credit. The cooperative, in some cases, pays a dividend or interest return to the member on his owned equities.

We all realize that the Internal Revenue Act of 1962 poses some problem in this method of raising member capital. As you know, at least 20 percent of net margins of a cooperative must be paid in cash in order for total margins, which have been **properly** allocated on a patronage basis, to be deducted from net income in the computation of Federal income tax of the cooperative.

Certain provisions must be **complied** with, such as obtaining consent of the individual patron, but the problem for consideration today is that the cooperative will be forced to pay 20 percent of margins in cash rather than retaining such amounts to increase capital. There is also a member relation problem to be considered since the individual will be required to include total patronage refunds, both cash and credits, as individual income in the computation of his personal income tax.



We have found in the Houston District that cooperatives and their members are not seriously concerned with the provisions of the new tax law. Most cooperatives have already amended their bylaws to include the consent provision and supplied their members with detailed information regarding the consequences. Perhaps they have not yet realized the full impact and may not realize it until their next tax return is prepared.

Let's take the case of cooperative gins in the State, as an example. For years they have been distributing about 35 percent of net margins in cash on a patronage basis for the current season, have been retiring the oldest issue of outstanding stock or equities in cash to the extent of about 35 percent of current margins in the business.

This balance retained, plus depreciation reserve set up for the year has been sufficient in most cases to pay mortgage indebtedness due the Bank and has enabled the cooperative to increase its working capital position. Other cooperatives in Texas in perhaps a reduced degree, have experienced about the same situation.

There are instances where a minimum of 20 percent probably will not satisfy members for their use in paying personal income taxes, but there are some cooperatives that are in a position to pay as much as 50, 75, or even 100 percent of their net margins for the year in cash. Of course, in such instances the cooperative would not have a serious member-relations problem.

#### One-Hundred Percent Cash Patronage Refunds--Desirable and Undesirable Features from a Member Relations Point of View

Oren R. Shelley

Going to a 100-percent cash refund would represent a major shift in our district. Historically, most of the farmer cooperatives there have built ownership capital through the retention of net margins--distributing patronage refunds in stock or in some other type of ownership paper.

True, there have been a number of marketing associations that have used a retain method. There have also been a few supply associations that have made a fixed stock purchase assessment as an addition to the selling price--and then paid patronage refunds in cash. These methods are relatively rare in our district, However.

Most cooperative members in our district are accustomed to receiving stock, and so on, to evidence their patronage refunds. This has been the generally accepted pattern. After a certain point in financial strength has been reached, a majority of the cooperatives begin to revolve the oldest equities--or at least the equities held by estates. The revolvment of capital, however, has not been possible in a number of cooperatives. Consequently, the revolving fund system in these cooperatives has had some serious membership relations implications.

From the standpoint of member relations, there are both advantages and disadvantages in issuing patronage refunds in noncash form. Much depends on how fast the cooperative can accumulate and revolve capital. When no dividends are paid on capital and revolvment is slow or nonexistent, capital stock certificates often lose much of their value in the eyes of the holder.

The receipt of more stock or other certificates for patronage refunds under such circumstances loses much of its appeal for members. The emphasis of any member-relations program then must be on the other important factors such as market security, service, quality, and reliability.

The 1962 Revenue Act requires that at least 20 percent of the patronage refunds be paid in cash, if these refunds are to be excluded from the cooperative income tax base. This requirement, if properly handled, could be a distinct advantage in improving member relations. It gives current patrons part of their refunds in cash. This has not been the practice in the past in many associations.

From a member-relations point of view, what are some of the advantages and disadvantages in moving all the way to paying 100 percent of the patronage refunds in cash? Gerals Emmer, Assistant Vice President of the Bank, and I have collaborated to outline the following factors which we feel are important.

You will note that some of the areas touched upon deal as much with operations as with member relations--but the two cannot be entirely divorced. I should point out also that this list is by no means all inclusive but I hope it will serve to stimulate other ideas and approaches to the subject.

#### Some Advantages to a 100-Percent Cash Patronage-Refund Program

1. It is simple--easy to compute--requires a minimum of detailed records. While perhaps a small factor, nevertheless, bookkeeping and correspondence expense would be reduced--hence a greater net income available to distribute in cash.

2. It is easily understood--an easy system to explain to members and to the public. Cash is dear to everyone's heart and has more impact on stimulating members' interest than cooperative stock or book credits.

3. It is the simplest means of complying with the 1962 Revenue Act--no need for bylaw consent, individual consent, or qualified check.

4. It can be an effective public-relations tool. Much of the criticism of cooperatives centers about the practice of retaining patrons' net margins. Thus the practice of a 100-percent cash refund would eliminate the basis for much of this criticism.

5. It may facilitate pricing so that each department of a cooperative "stands on its own feet" from an operating standpoint. Those who patronize a department where earnings are realized would be less inclined to subsidize a loss department under a 100-percent cash-refund policy. From the point of view of a member he will probably be more interested in the association's affairs. The membership as a whole may force management to take corrective action sooner--to get a department on its feet or to force its liquidation.

6. It may help managers to maintain adequate overall gross margins. Patrons are likely to be less sensitive to point-of-sale price when they know that they will receive any overage in cash at year's end.

7. If all cooperatives operated on a 100-percent cash-refund basis, it would likely increase the emphasis on efficiency of operations. From another standpoint, the effect probably would be to speed up consolidations and mergers, and to reduce the duplication of services among cooperatives. Patrons would gravitate more quickly to the more efficient cooperatives which return the largest cash-refund checks.

8. Paying a 100-percent cash refund to current patrons might have a tranquilizing effect on the unrest among members of some of the marketing cooperatives. Members may feel more a part of their cooperative if they can see more clearly that they are the recipients of all amounts over and above the costs of processing and marketing. This may reduce the incentive to set up or join a bargaining organization in addition to their present cooperative.

9. Paying refunds entirely in cash would force the divorce of capital accumulation from the retained earnings route. There may be a distinct psychological advantage in this. If members and patrons are required to make a formal specific investment in their cooperative--whether it be a direct cash investment or a per-unit retain--they will be more conscious of the contribution they are making to the organization. This should create a closer tie.



In other words, the direct investment would engender a greater appreciation for the association's stock than is the case where stock is received as a patronage refund. This may be an important factor from the viewpoint of the large, very successful farmers.

In one of our processing and marketing cooperatives, managements was concerned about holding two corporate farms as members and patrons. These farms supplied a considerable part of the association's volume.

One of these farms was in the 52 percent tax bracket. It informed the association that it would like to continue as a patron and wanted a competitive price--but that it did not want to receive any non-cash patronage refunds. Since this cooperative has been very successful and has paid substantial refunds, the additional noncash refund that the corporate farm would be likely to earn would be substantial.

The corporate farm has indicated that it could not afford to pay the tax on the noncash refund. It said further that, if as a condition of membership, it must take this refund in as income, it would terminate its membership.

This is only one case that has arisen so far, but isn't this going to be a problem for other large, successful farmers? Paying the patronage refund in cash, it would seem, would attract the large high-tax-bracket farmer rather than discourage his membership. This may be the type of member that the cooperative will need to serve, if it is to survive down the road.

So much for the advantages. Now let's look at the other side of the coin. What are some of the disadvantages of making a 100-percent cash patronage refund?

#### Disadvantages

1. It would strike at the very heart of the present generally accepted method of building ownership capital - a method which has been quite successful. In other words, it would no longer be possible to continue the rather painless method that patrons have used to build cooperative investments by taking equity capital as patronage refunds. This would make necessary some other method of supplying ownership capital to the cooperative.

2. Any major change in methods of capital accumulation would require an extensive program of member information and education before it could be implemented. It would probably need to be on an industry or areawide basis.

3. Problem with "per unit" or "percent of sale" retain methods of capital accumulation:

a. From a practical standpoint, these types of retains are probably so similar to the net margin retain as to contain a good share of its disadvantages. While, as I have mentioned earlier, there may be some psychological advantage in the "per unit" retain, as opposed to the retained net margin, there is little practical difference.

The current member, in either case, supplies the ownership capital in relation to his patronage.

4. Problems with the direct cash investment method of capital accumulation:

a. If the cooperative were to accumulate a major portion of its equity capital by direct cash investment, it would probably be necessary to pay an annual cash dividend on this capital.

In the case of nonexempt cooperatives, Federal and State income taxes would have to be paid on the amount of earnings represented by such payments. This, of course, would increase the cost of equity capital and reduce the amount available for patronage refunds.

b. In a direct cash investment program, it may be difficult to get the broad base of equity capital investors normally thought helpful for the long-run stability of an association.

If it is primarily the older and perhaps more prosperous farmers who provide the ownership or risk capital, will the younger members who have little financial investment stick by the association during temporary periods of adversity, when no cash refunds are available?

c. If the direct cash investment method is used entirely, there may be a tendency to move toward the sale of debt (due date) securities rather than equity securities. As a result, the cooperative may tend to operate with an inadequate equity capital base. This could lead to financial difficulty. Farmers, as well as others, like to belong to financially sound, well-run organizations.

d. A program of 100-percent cash refunds would make the smooth, continuous reduction of a long-term bank loans more difficult. Repayment funds would have to be obtained by a continuous formal program of direct cash investment by patrons and others. This might be a rather insecure program from a lender's standpoint and could result in delay of needed facility improvements or the addition of services.

5. If a cooperative changes from the "retained net margin" practice to a "100-percent cash refund with a direct cash investment," it will be difficult to implement without "locking in" the margins that have been retained in the past. "Locking in" equities can be very damaging to good member relations.

In the current Minnesota legislative session, a bill was introduced which would require cooperatives to redeem in cash all equities of a member when he dies. Through the efforts of many cooperative leaders, this proposed law was killed in committee. It demonstrates, however, the membership problem that would confront many cooperatives in shifting to an all-cash patronage refund unless some equitable method were included for the handling of the investments of the older, less-active members.

These are just some of the advantages and disadvantages of the 100-percent cash refund. Certainly there are a number of other favorable and unfavorable factors that could be added.

In conclusion, it would seem safe to say that, from a membership-relations standpoint, there is no better way to distribute patronage refunds than to distribute them in cash to the current patrons at the end of each fiscal year. Unfortunately, each cooperative needs a certain amount of ownership capital with which to operate.

A cooperative by its very nature must rely largely upon its farmer patrons to provide this ownership capital--and must decide upon the most effective way of getting it. In many cases, I suspect, the advantages of distributing all net margins in cash may be more than offset by the problems involved in the accumulation of needed capital by other means.

In general, whether or not a 100-percent cash refund program is desirable depends to a large extent upon the attitude, the interest, and the understanding of the members of their organization--and their alternative opportunities for comparable or like services. It also depends on how the cooperative grew, the acceptance of the members to the past program, and their receptiveness to change.

Basically, a good management with a good operation will by the very conduct of the business and related activities (public relations, member relations, and so on) generally command membership support for handling net margins in a way that best suits that particular association.



## The Importance of Keeping Bylaws and Records Up-To-Date

Gilbert K. Terpening

From the Fletcher Cyclopedia of the Law of Private Corporations, I quote: "The books and records kept by a corporation in the regular and ordinary course of its business in which are recorded the corporate doings, transactions and affairs vary greatly in number and kind, depending on the nature and purposes of the particular corporation, the character and magnitude of its affairs and activities, and the laws of the particular State to which it owes its existence and under which it operates."

(This statement is footnoted as follows: "Among those commonly kept are stock and transfer books, minute books or journals of corporate and directors' meetings, books of bylaws, and various books of account.")

"Books and records relating to the issuance, holding and transfer of stock have been the subject of statutory enactments in a great many of the States, and the keeping of proper and adequate books and records of such matters is a duty positively imposed by most, if not all, of such provisions. It has been held that statutes requiring the keeping of such books are intended for the benefit of stockholders...it is commonly provided by the charter or bylaws...that corporate stock shall be transferable only on the books of the corporation..."

As cooperatives encounter the problem of membership in relation to bylaw consent of the member to report as taxable income the noncash patronage dividend payments, the importance of these records of stock and membership in the cooperative corporation will become more apparent.

Many of our cooperatives are also recognizing the necessity of requiring all new members of the cooperative to sign an application for membership which includes a "consent" identical to that contained in the bylaw consent.

Still in the field of importance of records, I wish to include one more quotation from Mr. Fletcher's Cyclopedia:

"In the general course of a corporation's business it is necessary that proper books of account be kept. This is one of the duties of the officers. And it has been said that where a statute requires a record of the corporation's business transactions to be kept, it is incumbent upon a director, by virtue of his position as trustee with respect to the stockholders to see that proper books of account are kept."

Some managers and directors of cooperatives have objected to "keeping records for the bank for cooperatives." There ought to be said in a Membership Relations Conference, that books of account are basic to complete and fair accounting to all members and patrons of cooperatives.

Such accounting to stockholders of cooperative corporations make possible their understanding of an obligation to furnish funds to finance the cooperative, even though such funds represent taxable income to the individual, as now, again restated by Congress per the Revenue Act of 1962.

A top-rated source of legal information about farmer cooperatives is Farmer Cooperative Service Bulletin 10, Legal Phases of Farmer Cooperatives. I have, therefore, listed a few statements from that bulletin about legal requirements of bylaws.

1. "The statutes of some of the States require that cooperatives shall adopt bylaws within a certain length of time after their formation. In the absence of a statutory requirement it is not necessary, although highly desirable, for an association to adopt bylaws. The power to adopt bylaws resides in the stockholders or members, and they alone have the power to adopt them in the absence of a provision in the general law or in the charter, placing such power in the hands of a particular body."

In most States, the adoption of bylaws by farmer cooperatives is a legal requirement. And in most States the bylaws must be adopted by the stockholders or members of farmer cooperatives. For example, the Cooperative Marketing Association Act of Oklahoma, in addition to stating that each association incorporating thereunder must adopt bylaws consistent with the Act within 30 days, says further: "A majority of the members voting thereon is necessary to adopt such bylaws."

"We still encounter some bylaws or bylaw proposals that suggest that these corporate papers may be adopted by boards of directors. Certainly from a membership-relations viewpoint, all bylaws should be adopted and amended by stockholders or members. Sample bylaws in FCS Bulletin 10 and FCS Circular 18, Organizing a Farmer Cooperative, provided for amendment by members.

2. "Statutory requirements and limitations should be complied with and bylaws in conflict with them fail. Even where bylaws are adopted by unanimous consent of all stockholders they have been held void if in conflict with the statute."

Oklahoma and New Mexico have legislation adopted in 1937, called by each State its Cooperative Marketing Association Act. The Acts of both States are practically identical in wording with respect to distribution of net savings (earnings). Both require yearly additions to surplus or reserve funds of 10 percent of net savings until the reserve equal 100 percent of paid-up capital, limit stock dividends to 8 percent, and provide that undistributed balances be distributed upon the basis of patronage.

Bylaws adopted by farmer cooperatives operating under these laws in these two States must follow the prescribed procedure in distributing net savings. We recently encountered one cooperative in New Mexico whose bylaws were in



accordance with these provisions of the New Mexico Cooperative Marketing Association Act but whose practices did not follow their bylaws.

3. "A bylaw that is valid when made may be rendered invalid by a statute subsequently adopted."

This is truly the case with the few bylaws dedicated to a 100 percent utilization of the revolving fund plan, which provide that all of the current year's patronage dividends shall be paid through the issuance of revolving fund credits. It has been the practice of cooperatives which have such a provision in their bylaws, at the discretion of the board of directors, to use available cash to retire the oldest outstanding additions to the revolving fund.

The backgate or negative manner of statement contained in the Revenue Act of 1962--that patronage dividends paid by certain cooperatives shall not be taken into account in determining taxable income of the cooperative, and shall not be "consented" to by the patron recipient unless 20 percent or more of the amount of such patronage dividend, or qualified check--certainly makes necessary some legal changes of bylaws.

If the cooperative chooses the manner of obtaining consent as provided under Section 1388(c) (2) (B) of the 1962 Revenue Act, some selection must be made of an appropriate Article and Section of existing bylaws under which to insert the appropriate prescribed bylaw amendment.

A sampling of recommendations being made in three of the four States in the Ninth Farm Credit District shows no uniformity with respect to place of insertion of the bylaw "consent" amendment. The wording of the "consent" amendment is almost identical in all cases.

In order that bylaws may be made consistent with the Revenue Act requirement that 20 percent of each year's patronage dividends be paid in cash, changes must be made in provisions pertaining to distribution of the amount of net savings remaining after compliance with any reserve requirements and declaration of permitted stock dividends. These provisions apply mainly to the requirement for building up of minimum requirements of member capital such as common stock.

Another sampling of bylaw recommendations for such changes shows that while the recommendations accomplish the same purpose, one says "distributions not to exceed 20 percent in cash," while the other says, "Eighty percent of patronage dividends due patrons eligible shall be applied toward purchase" of the minimum requirements of stock (common or preferred) that may be prescribed in the bylaws as approved by the membership.

No attempt is made here to discuss the requirements of notification and tax reporting requirements under the 1962 Revenue Act. Although some of

these provisions may well be included in bylaw provisions, there is no apparent agreement that they are legally required to appear in bylaws.

Section 1388(c) (2) (B) of the new Revenue Act makes it quite clear that a recipient of a noncash patronage dividend payment "consents" to take that payment into account as taxable income by obtaining or retaining membership in his cooperative AFTER he has received a written notification and copy of the bylaw amendment.

4. "Among matters usually provided for in bylaws of a corporation are the following" Eligibility requirements for membership; restrictions on the transfer of stock or membership; ... provisions for expelling or suspending the rights of members ..."

"If a bylaw provides for the automatic termination of membership upon failure or neglect to deliver products, a member cannot, by refusing to deliver, terminate his membership unless the association consents thereto. Such a bylaw is for the association's benefit; furthermore, the maxim that no man may take advantage of his own wrong would seem to apply."

The significance of "obtaining or retaining membership" in a cooperative after that cooperative "has adopted a bylaw providing that membership in the organization constitutes consent" will draw attention to those bylaw provisions referred to previously pertaining to requirements for membership and methods of termination. These conditions have given rise to some discussion of possible action by members of cooperatives who may not have voted favorably upon bylaw "consent" amendments.

Some information pertinent to this situation is again quoted from FCS Bulletin 10:

"In a cooperative formed with capital stock, a person continues to be a member until a valid transfer, redemption, or forfeiture of his stock is effected. He cannot resign."

"Fundamentally, in a nonstock cooperative a person continues to be a member until he resigns or is expelled, or until his membership is otherwise terminated in accordance with law."

The discussions of membership termination give rise to questions regarding claims a member may have in his association. Here again are more quotations from FCS Bulletin 10, which describe major concepts basic to desirable membership relations.

"Neither a stockholder of a stock association, nor a member of a nonstock association has title to any part of its assets... Prior to dissolution, a member or stockholder of an association at common law has no interest therein that he can compel the association to recognize. Money paid by members of an association as membership dues

or fees, or for the purchase of stock, or money deducted by an association in pursuance of authority to do so from returns received from the sale of products of members, for the purpose of establishing reserves, or for the acquisition of buildings, do not constitute debts owed by the association to the members unless the association has previously agreed to return or pay back the amounts involved."

In R. J. Mischler's periodic report "Summary of Cooperative Cases," Legal Series No. 22, September 1962, there is reported another court case involving the status of "Equity Credit." This case occurred in Mississippi, where the Supreme Court held that equity credits allocated to a patron on the books of a cooperative do not reflect an indebtedness which is presently due and payable by the cooperative to the patron, and that the patron could not use equity credits as a set-off against a note payable to the cooperative.

The summary of this case, as presented by Mr. Mischler, shows that in reaching its decision, the Mississippi court referred to numerous court decisions in other States wherein the same opinion was held. These cases cited each hold that the patrons of a cooperative are legally bound by its bylaws.

These cases would never have found their way to court had the members and patrons of cooperatives been taught the correct member-relations attitude. This presents the tremendous task that was recognized when these member-relations conferences were started. Much credit is due to Irwin Rust and Ken Stern for their part in originating these conferences.

By inference in the preceding paragraph, I said that members and patrons of cooperatives could be taught the correct member-relations attitude.

It has been said: ALL BUSINESS IS TEACHING."

1. Teaching people how to make goods is MANUFACTURING.
2. Teaching others the benefits of a product is SELLING.
3. Teaching employees how to work together is MANAGEMENT.
4. Teaching people the worthiness of a business is PUBLIC RELATIONS.

We, here, should add

5. Teaching member-patrons their obligation to their cooperative is MEMBER RELATIONS.



## Finding the Will To Do

John P. Comstock

Almost all of us have, at one time or another, stood upon a mountain top and looked with awe and wonder at the immensity of the world spread out before us. From a point of view like this, man's place in the universe seems to fall into proper perspective.

If we could similarly stand back from our subject here and view it from the vantage point of objectivity, we could get this whole business of member . relations into much the same sort of perspective.

There seems to be a growing tendency today to look at cooperatives only in terms of economics. This trend ignores the most important concept that distinguishes a cooperative from other proprietary business--that of people working together to do for themselves what no one else can or will do for them. It is this difference that presents both a problem and a promise.

The problem lies in the fact that change has caught up with us. Farms, farmers, and farming have all changed. Our present-day farmers missed the desperate early-day struggles to found their cooperatives and missed the thrill of nurturing them to a measure of success. As Irwin Rust puts it, they have "no emotional involvement."

The old-timers need no indoctrination on the value of cooperation, past, present, or future. They learned about it from frustrating experience; and because of this, they were willing to furnish the key element of cooperative success--strong, loyal membership support.

Without such support, a cooperative flounders from day to day in dreary mediocrity. With it, everything is possible, whether it be adequate finance, a volume of business satisfactory for efficient operations, or standing behind it when the going gets rough.

Can present-day farmers be made to understand the objectives and the possibilities of cooperatives? Will they be willing to give these cooperatives the support so vital to their future? I believe that they can and will and that they are only waiting for us to do our job.

Since the beginning of time, men have been willing to fight and die for basic principles in which they believed. Yet I doubt very much whether anyone was ever willing to make this sacrifice for economics alone. They need the stronger motivation to be found in the human element. They need the vision of what can be accomplished by people working together.

How can we reach this newer generation of farmers? Here again change has caught up with us. The days of the pot-bellied stove and the cracker barrel are gone forever. Gone with them are those catch-as-catch-can discussions that were sometimes as red hot as the stove itself--discussions that often guided the thinking of whole communities.

Gone too, is the possibility for most cooperative managers to know intimately and talk personally with any substantial percentage of their membership, even where this number is no more than 300 or 400.

If we are to motivate these newer patrons, we must have a program that is geared to the times we live in. Science and research have taught us how to communicate more effectively and have provided us with more tools and with more media to help us. For example, one recent study is particularly interesting because it indicates that personal contact has been replaced as the No. 1 medium of communication by some kind of publication that farmers can read at their leisure.

Research has shown also that no single medium reaches all of our publics but that every medium reaches some of them. But science and research can never furnish the impetus to stir us out of our inertia. The will-to-do must come from within us.

The promise mentioned earlier lies in the almost unlimited potential of cooperatives to play a far greater and more important role in serving agriculture everywhere. This potential will be realized only when farmers come to understand that their strength and their future lies in working together.

### SESSION III

Wednesday morning, May 8, 1963

Chairman: Nellis A. Briscoe

#### FINDING OUT WHAT MEMBERS WANT

##### How We Keep Our Fingers on the Members' Pulse

Art Gamertsfelder

I am involved in two separate organizations in member and public relations--the Ohio Farmers Grain Corporation and the Ohio Farmers Grain & Supply Association. Both are owned by a group of about 100 farmer-owned elevators in Northwestern Ohio. In other words, these 100 farmer-owned elevators hold the common stock in the two Ohio farmers organizations.

We also do business either by purchasing grain or selling feed, fertilizer, and farm supplies with over 150 independent or corporate concerns in our area that are not common stockholders. Most of these own preferred stock, which they have earned through patronage in the Grain Corporation or the Grain and Supply Association. Both organizations are 25 years old or more, the Grain and Supply Association being the original company.

Both organizations are controlled by the same board of directors but managed by separate general managers. The Public and Member Relations Department is the only connection between the two, with the exception of the board of directors and the fact that the two organizations are owned by the same group of elevators.

The local farmer elevators, which I mentioned, are not all full cooperatives; some are corporations acting as cooperatives but all are farmer owned. Now with this background you can realize that we have no control whatever over the local organizations which control us. We are actually managed by the grass-root farmer who is a member of the local farmer elevator that in turn elects our board of directors and owns stock in our company. We have no way of demanding loyalty or exercising authority over any of our elevators or the patrons or stockholders of those organizations.

Let us consider what type of information we might want to glean from our members through different channels. Policy information heads my list, service comes second, and demands for product changes comes third--in order of importance. How can we go about finding out the demands of our members, for instance, on policy? I firmly believe that the most important information



channel is word of mouth, or shall we say personal contact. In the case of policy, our directors stand out as leaders in securing suggested policy changes from stockholders. They are in a position to be contacted more often than those of us located in the office.

In our Public and Member Relations Department, we make every effort to attend stockholder meetings of all our local organizations. It is surprising the ideas that turn up at these meetings that can be used at the central organization level. Gripes about operations come out in local stockholder meetings. Complaints from the stockholders are generally well founded and should be looked into.

Our Public and Membership Relations Department also spends a great deal of time visiting boards of directors at their regular monthly meetings. Probably no other source of information is as lucrative from the standpoint of sound suggestions as the information especially that concerning policy changes secured through local board meetings. We also use other means of getting information as an example, the auditor who makes regular inspections of the elevator books becomes a good source of information, as do our friends at Ohio State University and the secretary of the Grain and Feed Dealers Association of Ohio. You will note that practically all the sources I have mentioned are word-of-mouth sources and come from personal contacts in the field.

The second important type of information concerns service and service policies. Nothing, in my opinion, can ruin a good cooperative organization as quickly as poor service to its members. Consequently, I believe that service should rate high on the list of information that we secure from our members. Probably here the best source again comes through personal contact.

We have salesmen working in our sales department who make weekly trips to each of our dealers for the purpose of securing orders and offering them information on new and seasonal products. It is through these salesmen that we receive most of the suggestions from the elevator managers concerning changes in service policies they might believe helpful. Our Nutrition Department also finds many people who are willing to offer suggestions for the betterment of the all-round service policy of the company. Even the truck drivers, if properly instructed, can do a good job along this line.

Suggestions offered regularly are quite important for product changes and additions and deletions of merchandise. The best suggestions along these lines come from farmer-dealer meetings, wherein the local elevator invites a group of farmers into the office for an evening of discussion concerning products, generally one specific product at each meeting. This type of meeting is fruitful in suggestions for suggested product changes. Generally these meetings are under the direction of the Nutrition and Sales departments together. So here again these two departments fit into our scheme.

A question is often raised: Do you get many suggestions from your stockholder meetings? (I mean the central organization stockholder meetings.) My answer to this would be "No." Actually we may find it quite hard to get them to offer suggestions during the meetings. Maybe we are not going at it the right way, I don't know.

Probably one of the best ways of securing helpful suggestions and keeping in contact with our members is through groups which many of our local elevators sponsor, known as Advisory committees. These advisory committees are generally made up of 15 to 25 percent younger men scattered throughout the area served by the organization. Many of the complaints and suggestions coming from these groups are not legitimate or workable, but on the other hand, you can always sift out the good ideas.

While we are on this subject of young men on the advisory board, let me say that, in my opinion, cooperatives are not making the effort that should be made toward cultivating the goodwill and interest of the young farmer. This is a segment of membership that is being overlooked in many cases. We often learn the "wants" of our members from our local county agents who, by the way, are doing a fine job in our State. County fair booths are also a good place for discussion among members and patrons concerning company policy, service, and products.

Last, one good source of information, which we are not using but intend to start using, is a semi-annual questionnaire mailed to each member, sort of a suggestion-box where the member can have his say and put his suggestion in black and white for future consideration. In our department at Ohio Farmers we make every effort to track down any suggestions coming from any source whether it be good or bad, and discuss it with the person or group making it.

#### How We Keep Our Fingers on the Members' Pulse

James Reeves

Most of us will agree that farmers, as a group, are inherently independent. As a basic concept I think we will all agree that the average farmer lives, works, and thinks independently.

I think this is good. I think it is basic to the American way of life, and it is something I would not change even if I had the power to change it. But this spirit of independence goes past the point of being constructive from time to time, and can become a feeling of distrust. To the extent that this is so it poses a challenge--



it points up the special problem in membership relations that faces most cooperatives. So, when I talk today about the efforts of my organization "in keeping our fingers on the members' pulse," I may discuss some things that seem to be a little nebulous.

Some of the concepts--some of the ideas--are hard to put into words. We are dealing with people and people are complex. Likewise, my subject is complex.

I think the basic reason many cooperatives have trouble keeping their fingers on their members' pulse is that they tend to deal with their members in an abstract way. I mean by this that we sometimes fail to think of our members as individuals. Often we start dealing with people in nice, well-defined categories. But it seems to me that when we get away from the individual approach, we lose our ability to feel the pulse beat of the membership.

So, first, I would say that we emphasize the importance of the individual in our program. Knowing what members think and how they will react to a given set of circumstances is basic to the continued success of the cooperative movement.

At the outset let me say that I think any cooperative runs a tremendous risk if it doesn't take the time and effort to really dig, to find out what members think, particularly about the co-op. Most members of a cooperative tend to go along with the crowd. In most cases, even though they don't care for something the co-op is doing, individual members are very reluctant to try to change things. Far too often it is simpler either to let it go, or quit the co-op.

In the latter case, you know about it pretty quickly, but in the former it may simply add to the dissatisfaction, and you won't know about it until it's too late. I will agree that most co-ops have 15 or 20 percent of their membership willing to give a quick rundown of everything that is wrong with the coop--with the board of directors, with the management, with the service and everything else you might mention. But in most cases this type of criticism is not constructive--it is not something that you can rely on as a background for establishing an effective program to maintain good relations with the membership.

So we must be interested in the 80 or 85 percent of the producers from whom we want to find out what our membership thinks about our cooperative.

Let me say at the outset too, that I think you will find that the job of keeping your finger on the pulse of the membership is different for the marketing cooperative than it is for the supply and service cooperative.

In the case of the supply cooperative, the purpose of the organization is to purchase a commodity and sell it in competition with other businesses. The principal concerns are quality, service, and price level. Most of these are readily measurable and a lot more apparent to the average member than the values that he may obtain from some of the marketing phases of the cooperative enterprises.

It is my personal opinion that the marketing cooperative must be more concerned with keeping its fingers on the members' pulse than the supply cooperative.

The marketing of most farm commodities has become extremely complex over the years. Thus, it is difficult even for specialists to understand the full range of services necessary to move a commodity from the producer to the ultimate consumer.

The marketing cooperative, therefore, is vulnerable to attack many places along the way. There are many points at which competitors may influence members **against the cooperative.**

Turning now to the specific subject at hand, I know of no better way to illustrate some of the techniques that we feel are valuable in keeping our fingers on our members' pulse than to discuss some of the techniques that we have used in the past.

Our program for determining what patrons like or dislike, or want or don't want, revolves around our board of directors. All of our directors are farmers who depend upon farming as their principal source of income. For this reason their feelings, their likes, and their dislikes should be very similar to those of other dairymen of our territory. But, we have found that this is not necessarily true.

Directors tend to become better informed, and thus their thinking may vary substantially from that of the average patron of the co-op. In our association, we have one board member for approximately 300 members. In addition, we have a delegate system made up of township committeemen with one delegate for every 20 to 25 members. We have found that these delegates are also a valuable link in keeping ourselves abreast of the membership demands.

While these committeemen receive more information and at more frequent intervals than the regular membership, they seem to represent a more unbiased reflection of the feelings of the average member than the directors do. But, here, too, we find we may get a distorted picture. Our contact with our committeemen is twofold--day-to-day contact by fieldmen, and annual or semi-annual contact by management.

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Many people feel that too much paperwork or reporting is not appropriate for the fieldman. But we believe it is worth while for our fieldmen to spend a little of their time analyzing and recapping their experiences with both our committeemen and our patrons. We consolidate and tabulate into a master field report the daily reports of some 32 fieldmen. This overall report gives us a good picture of where we may have failed and where we may have succeeded. It is quite extensive in nature, telling why we have lost patrons, why we have gained new ones, what competitive position we hold in each area, who our competitors are, and what success they have had.

This report, combined with the information we obtain from our directors and committeemen represents our direct method of keeping our fingers on our members' pulse.

We use one other technique. This is the third-party approach. We know that many times members--even directors and delegates--have friends and confidants, to whom they will reveal their feelings about the association a great deal more readily than they will to some of us who are employees.

For this reason we spend a substantial amount of effort in obtaining the views of responsible "third parties". Generally speaking this includes county agents, vocational agriculture teachers, bankers, and rural businessmen. We have found that this third-party approach, if properly analyzed, is many times a tip-off to potential problems that can be taken care of before they become serious.

This approach requires that you obtain the confidence of the third party involved and provide him complete assurance you will not reveal the fact that the patron discussed these problems with him. In this program, you also must be very thick-skinned because many of these people tend to be a little over-zealous in their criticisms.

Generally speaking, however, you will receive a good deal of information about how you stack up in the eyes of your members. If you will listen carefully and analyze the comments of the third party, it provides valuable information for you.

With this general discussion of the channels that we use to keep our fingers on the memberships' pulse, let us turn briefly to some of the specific techniques that we use to try to weed out fact from fiction.



We found some very important "do's" and "dont's" about questionnaires. First, you must ask questions that can be answered either by "Yes" or "No", or by checking appropriate squares. Don't expect people to write a great deal of their opinion. We also suggest that questionnaires be returned in a manner that the person who filled it out does not feel you can trace it directly to him. If he is convinced of this he is much more honest in his comments and suggestions.

It is also important to put some questions that cross-check answers. Occasionally you will find people fill out questionnaires without a great deal of thought. Thus statements that ask the same question in two different ways are important to cross-check the care and thought that goes into the completion of the questionnaire.

I might also give one or two tips about meetings. We have found that in our meetings with our delegates we have a much freer exchange of ideas, if we provide a period for the general discussion of any subject the participants choose. We are also convinced that the meetings should be conducted by farmers rather than by hired personnel. You may tend to stifle broad discussions that are extremely valuable in determining your position with your membership, if you take too active a part in a meeting primarily designed for the membership.

We also believe that these meetings need to be rather small. And the agenda should not be so crowded as to prevent discussions that sometimes wander quite far afield.

Insofar as our third-party approach is concerned, we think it is highly important to hold regular meetings and seminars with these groups to alert them to our problems and plans and to discover any discord that might occur if we follow a certain course of action.

#### How We Keep Our Fingers on the Members' Pulse

Phil Porter

Since the area covered by North Texas Producers Association is 800 miles wide and 300 miles deep, a rather long arm is required to keep our finger on the members' pulse. To illustrate: an equivalent situation would be keeping one's fingers on the pulse of members in the entire States of New Jersey, Connecticut, Massachusetts, Vermont, New Hampshire, Maryland, Delaware, Rhode Island, and half of Pennsylvania.



Perhaps we are fortunate, however, in that the 2,500 dairymen in our organization are scattered over this wide area. They may not need their pulse taken as frequently as members of organizations located closer together. It may be an advantage for members to be scattered so widely apart that they don't spread rumors as rapidly. But, on the other hand, widely scattered members are less likely to attend meetings and get accurate information. They sometimes have less of a feeling of belonging than more concentrated memberships.

We know that our Association is held together only by the bond of the services and functions it performs. I don't believe a co-op can survive where there is not a serious need for it. That is to say, if private business is fairly and economically providing needed services for farmers, a co-op can neither organize nor long exist. Farmers had much rather operate as completely free agents.

But the joker is that men's attitudes toward an organization are governed, not so much by what it does as by what they think it does.

An organization may be removing or eliminating many expenses and problems for its members. It may be saving them great expenses. Let's say it is actually doing these things. But if members think the organization is only taking some of their freedom and costing money in addition, it may not be around for very long.

So, one of our biggest concerns in member relations work is keeping in touch with what members think their co-op is doing. In this context, keeping our fingers on our members pulse becomes a key area to the very existence of our co-op.

I would like to report on a system we use which keeps us acutely in touch with the members' pulse. That's what I would like to report on--but the fact is that we don't have any such system.

To find out what our members are thinking we use a wide variety of the usual methods. These are methods that every cooperative uses from time to time--plus one which may be a little unusual.

1. Mail. We get a few letters. But our dairy farmers write letters about as often as they fly to Las Vegas for a vacation.
2. Feed back from directors. Some of our best information comes from directors - but too often we don't get much information from areas where it is needed most.
3. Fieldmen. We have 10 fieldmen. Eight of them have 2-way radios in their cars. This helps, but their work is generally with problems of a nature that we don't get a great deal of "thought pattern" information from them.

4. Insurance salesmen. Agents with our franchise group hospitalization insurance call on members regularly and can sometimes tell us where an area of misunderstanding is developing.
5. District meeting discussions. In some districts members discuss their thinking openly. In others the meetings are too infrequent and poorly attended to reveal the members' attitudes.
6. The bottom 5 percent. This one I'd like to spend a little time on.

Maybe we should pay tribute to the bottom 5 percent as the best means of keeping our fingers on the members' pulse. It seems that they are sometimes our most effective member relations people--and they don't even get paid for it.

It isn't too comfortable to admit it, but during the last 4 or 5 years a great deal of credit for member relations in our organization must go to the bottom 5 percent.

Here's what I mean by the "bottom 5 percent."

They are usually not very good farmers; they are not good managers; they are, many times, not experienced in the dairy business. Often they marry or inherit a dairy farm and think that with no experience and very little work they should be able to make the kind of living to which they are accustomed in some other field.

When limited experience, short capital, and poor management result in financial and family pressure, they start looking for a scapegoat--someone to blame for their problems. The association is about as handy a thing as a man can find to blame his problems on. Not being an individual but rather a nebulous thing, it lends itself well to criticism.

Every organization has a few characters who dig up, hatch, create, or carry rumors and misinformation. I sometimes wonder how one of the them can find time even to visit his own dairy farm and still distribute more misinformation with his one mouth than we can satisfactorily correct with 8 field cars equipped with 2-way radios, 32 directors, telephones, and a magazine.

The bottom 5 percent are "A-ginners." (I call them that because they seem to be "agin" just about everything.) They are generally so busy spreading rumors or digging up "evidence" that they don't have time to farm very well even if they knew how. In almost every case, a member who begins to blame the association or someone else for all his shortcomings won't be in the business another year.

Here is an example of how the bottom 5 percent works:

Four years ago one of them decided that he wasn't making as much money as he

thought he ought to make, and it must be somebody's fault besides his own. He set out to prove that it was the association's fault. Apparently it was his aim to become manager of the association. He couldn't run his dairy but he knew just exactly how to solve the problems of the association.

He sent mimeographed letters to members. He held meetings to inform members as to his way of thinking and why the association was working against them. This fellow even got some counterfeit ballots printed and hired high school girls to hand them out at the annual meeting. As people approached the theatre where the annual meeting is held, the girls handed them one of these counterfeit ballots and said, "Have you gotten your ballot yet?" Several people got these ballots and voted, thinking they were voting for the directors who had been nominated at district meetings. In truth, they were voting for a different group of men. But there weren't enough of these votes to hurt even if they hadn't been illegal.

The point that I want to make is that at this annual meeting we knew what had been going on. We were prepared. We probably had one of the best annual meetings in the way of providing information for the membership that we had ever had. We had developed extra visual aids, some graphs, and some slides.

There were charts showing why the association had taken certain actions and listing benefits to members during the past few years. We also showed where members had benefited through belonging to the Association.

It was a most informative meeting. We got busy and were prepared to answer any questions. The speeches were strong and forceful and positive. This meeting caused many members who might have been lukewarm to become strong members. When the troublemaker got up in the meeting, his supporters had left him. All the people who had been following him, perhaps because there wasn't enough information getting to them otherwise, just dropped off and left him holding the bag.

Well, things quieted down for a couple of years. The following year we had a quiet annual meeting. Members were given some general information and a good annual report. The next year--the same; quiet annual meeting--with a good annual report. The association was doing things. We had made progress and we had gained considerably in assets.

Then came last year. One of the bottom 5 percent was active. He was a real dandy. It would take more time than I have here just to discuss all the things he did trying to prove that the association created his problems. He sent 3-page mimeographed letters to the membership. He called meetings and made wild statements that got in the newspapers. He called on members personally and discussed his theories. He wrote to the Justice Department twice asking for an investigation. There was a certain element which was in the same boat he was and ready and eager to follow anybody who would take the initiative.



He made pronouncements about what he was going to do and even sent out letters to the membership giving a lot of misinformation about marketing milk and stating that he was going to correct things. He instructed members to vote against all of the directors (they had recently nominated them in district meetings); and to vote against all the bylaw changes. (They had recently submitted them.) He requested that a card be sent to him stating how each member voted, and saying that he would see that the votes were counted fairly if it required a court order.

As you might guess, we made special preparations for that annual meeting. We had the answer to every possible question we could think of concerning the association. We had some good speeches worked up, and there were more visual aids. A tape recorder was stationed down front and anyone who wished to say anything was required to come to the lectern to talk.

What I'm saying is that we really prepared, and we gave members a good informative annual meeting. We also provided more information in the magazine to directors and to fieldmen. When the annual meeting was over, members knew a lot more about their Association, and they knew a lot more about its activities. They knew why the Association had taken some actions and why it had not taken other actions. And the members generally felt much better informed.

Here is just one more example of the bottom 5 percent getting a world of information for the majority of members that they wouldn't have gotten otherwise. We talk and we act as though we realize how important member relations are, but usually with our actions, unless there is something to cause us to really become active we apparently don't have strong enough incentive to prepare and disseminate as much information as is desirable.

Both of the bottom 5 percenters I have discussed are out of the dairy business now--the result of their own faults. And North Texas Producers Association is **stronger** as a result of their activities.

I shouldn't neglect to mention at this point that we have had a year-round and continuous member relations program for years. We provide a fairly good magazine, I think. We encourage district meetings. We help develop district meeting programs. We have fieldmen through whom we dispense information. We try to get as much information as we can to the directors so they can carry it back to their district meetings. I say all this because I want to make it clear that before these situations I mentioned, we did not ignore member relations. We recognize--at least we think we recognize the importance of member relations, attempt to know what members think, and try to provide what members want where it is desirable and feasible.

But, I must return to the fact that in spite of how uncomfortable and disagreeable they make life for member-relations people, it is because of the bottom 5 percent that a great deal of important and necessary information is organized and presented to members. They don't reflect the



attitude of all members, but they point out the areas in which information should be dispensed.

Another thing this bottom 5 percent does, and one of the most valuable things they can do, is to make people want information. You can write letters and get all kinds of information out, but until people want it, they won't accept it, they won't remember it. They won't even read it. They have to want it and have some sort of idea that they need it, or have some reason for wanting it, before they accept it. I think a much higher percentage of our members read our magazine as a result of being caused to want information. Many of them are good strong members and want information to refute the rumors that are brought to them by the bottom 5 percent.

I try to listen to the bottom 5 percent. A major part of what they say is of no value and is certainly not the consensus, but if one wants to find out the subjects most needing explanation, the bottom 3 percent will tell him.

#### Where Do We Go From Here?

J. K. Stern

I have seen farmers lower the price and improve the quality of fertilizer, feed, seed, petroleum, and other farm supplies.

I have seen farmers improve the quality, grading, and packaging of eggs, fruits, nuts, vegetables, and many other commodities.

The broiler and the turkey production and marketing stories are fantastic.

I have seen livestock cooperatives bring competition into the market place.

The cooperatives marketing grain, cotton, rice, soybeans, and many other cooperatives have put millions more dollars annually into farmers' pockets.

The farm credit banks are an amazing success story.

The rural electric cooperatives are a pattern for the world.

I have seen all of this in my lifetime and I am grateful--but we must do better. Net farm income is not what it ought to be and can be. No rash promises of unsound economic proposals will do it--but closing local units that are uneconomical, coordinating or merging our cooperatives into fewer and larger units that will be more powerful in the market place, giving more attention to advertising and promotion of a few high-quality national brands which farmers control, will help to do it. These are constructive ways to improve farm income, and maintain the family-type farm at the same time.

How many oil refineries do farmers need, how many feed mills, soybean and cottonseed processing plants, milk processing plants, grain marketing organizations, how many exporting firms, how many brand names?

We have not done a good job of telling the public or even our own members about the self-help progress that has been made. We have not made cooperative membership a family affair nor given youth and young farmers their fair share of responsibility. We have done too much for people and not enough through and with people. Cooperatives have not helped each other enough nor recognized that all types of cooperatives have problems in common.

Human nature doesn't change much. A famous preacher often talked about the great Chinese Wall. It took centuries to build--no enemy was ever able to get through or over it--except three times they entered by bribing the gatekeeper. Our problem is people--good people, but uninformed and misinformed people who fail to recognize what their cooperatives have done for them, and who sometimes desert the very institutions that offer them the greatest hope for the future.

Perhaps we want the "Promised Land" today without "going through the Wilderness." There is no short cut--cooperative progress demands complete loyalty, a willingness to patronize, finance, support and at times make a short-run sacrifice to keep the institution going. We must take seriously the problem of membership relations and of public relations. We must support more adequately our State Councils of Cooperatives, our trade associations, and our national educational agency.

We take for granted our many privileges and we, too often, shirk our responsibilities. Our freedoms mean little to those who have never been without them. The signers of our Declaration of Independence literally gave their lives, their fortunes, and their devotion that we might be free. Many were tortured and killed, their fortunes lost, their families separated. We have much to be thankful for, but today, many a free citizen will not even respect our flag as it passes by.

The founders of many of our cooperatives made real sacrifices too, but what will the present generation of cooperative members do to keep them growing and expanding?

Let's answer the unfortunate farmer who thinks cooperatives never did anything for him.

Let's do a better job of cooperating too, for this is the surest way to a more prosperous agriculture.

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